CITY OF FRESNO

FIRE & POLICE RETIREMENT SYSTEM

FIRE & POLICE HANDBOOK

Revised January 2000

Table of Contents

Introduction

Purpose of the Plan

Your membership in the City of Fresno Fire and Police Retirement System (Plan) is very important to you. Participation in the Plan helps you plan and save for retirement and for your future financial security.

Purpose of this Plan Summary

The Retirement Board has prepared this summary as a convenience to Plan members. This summary includes brief descriptions and explanations of the Plan's major provisions.

If there is any difference between this summary and the provisions of the laws that govern the Plan, the legal provisions will prevail.

It is also important to recall that the retirement provisions of the Fresno Municipal Code are amended from time to time. While the Retirement Office will exercise its best efforts to keep this handbook current, that will not always be possible. We recommend contacting the Retirement Office when you have an important question. Staff should put their responses in writing. Remember that oral representations will not bind the Retirement Board.

Plan History

The Fire and Police Retirement System is one System with two tiers. "Tier 1" covers Fire and Police employees who were hired by the City before August 27, 1990. "Tier 2" covers Fire and Police employees who were hired by the City on or after August 27, 1990. This summary explains the provisions of both Tier 1 and Tier 2.

Both tiers are governed by the City of Fresno Municipal Code. The provisions of Tier 1 are set forth in Article 17 of Chapter 2, while the Tier 2 provisions are stated in Article 17A. The Plan is administered by the Fire and Police Retirement Board.

Management and Administration of the Plan

The system is managed by a five-member Retirement Board. Representation on the Board is as follows:

Two Members:	One elected by Fire members and the other elected by Police and Airport Safety members
Two Members:	Two City management employees appointed by the Mayor and approved by the City Council
One Member:	Elected by the other four members of the Board

The Retirement Board has a number of roles. The Board contracts for investment consulting services, investment management services, legal and actuarial services, securities lending services, and monitors the performance of the Plan's investments. The Board also oversees the administration of the retirement benefit process, conducts formal and informal hearings on benefit applications, and decides on employee and retiree requests for various services. In addition to other responsibilities, the Retirement Board is responsible for ensuring that the Plan remains in compliance with applicable local, state and federal laws.

Regular Retirement Board meetings are normally held on the second Wednesday of each month at 2:00 p.m. Meetings are open to the public.

Requests of the Board should be submitted in writing to the City Retirement Office at:

City of Fresno Retirement Office
2600 Fresno Street, Room 2170
Fresno, CA 93721
tel: (559) 498-1341

Applications for retirement benefits, refunds, death benefits, and other requests for information regarding benefits should be directed to the Retirement Office.

Plan Membership

Who is eligible?

All sworn Fire and Police personnel and Airport Public Safety personnel are eligible. Part-time Public Safety employees are not eligible to participate in the Plan.

Is participation mandatory if I'm eligible?

Yes, participation is mandatory for all eligible employees.

When do I join the Plan?

You join the Plan on your hire date from a civil service list to a permanent full-time position.

What am I required to do?

At the time you are hired for a permanent full-time position, you will be required to complete and submit a Member's Enrollment Form. This document is very important to you and to the Plan. It requires you to provide the name(s) and the relationship(s) of the beneficiary(ies) to receive your benefits in the event of your death**.** **You should always keep your beneficiary designation up to date.**

Keep in mind that the Plan requires certain retirement benefits to go to certain specified classes of recipients. For example, if you die before you retire and you were married to your spouse before the disease or injury causing your death, your surviving spouse will automatically receive certain benefits upon your death. You cannot designate someone else to receive these benefits.

Once you have made a beneficiary designation, you can change it at any time by completing forms available in the Retirement Office. Once completed and submitted, the most recent beneficiary designation will be used to distribute your benefits in the event of your death. If you die without a surviving qualified spouse, surviving dependent minor children or financially dependent parents, or without naming a beneficiary, any benefits to which you are entitled will be paid to your estate.

You should update your beneficiary form when you get married or divorced, after the birth of a child, or any such major change in your life.

Contributions to the Plan

Do I have to contribute to the Plan?

Yes. All participating members are required to contribute to the Plan. Your contributions are made through regular bi-weekly payroll deductions. Since January 16, 1986, your contributions are made on a pre-tax basis. This means that your contributions made since then are not taxed until they are distributed from the Plan.

Does the City contribute to the Plan?

Yes. The City contributes any amounts needed in addition to employee contributions to provide for current and future benefits. The amount of the City contribution is determined every year after an actuarial study of the Plan.

How are my contributions determined?

If you are a Tier 1 member, the amount you are required to contribute to the Plan will be determined based on your age when you are hired or are transferred to an eligible position with the City. The younger you are when you begin participating, the longer the time period between your entry into the Plan and your retirement, and thus the lower your contribution rate. Contributions are a percentage of your City pensionable pay, which is, in general, your City salary. However, your pensionable pay does not include some items of pay, such as overtime and amounts paid at termination of service for unused vacation days.

If you are a Tier 2 member, the amount you are required to contribute to the plan is 9% of pensionable pay.

Can my contribution rate change?

Yes, for Tier 1 members. The Retirement Board retains an actuarial firm to perform comprehensive cost studies of the Plan. Studies of this type are conducted every year. Based on the results of these studies and the recommendations of the actuaries, the Retirement Board may adjust the contribution rates for Tier 1 members.

Do my contributions earn interest?

Yes. Interest is credited to your contributions on the last day of each month. The interest rate is set by the Retirement Board after an actuarial review of the Plan.

How will I know what the accumulated amount of my employee contributions are?

At the beginning of each fiscal year (July 1 to June 30), you will receive a statement showing your employee contributions and accumulated interest in the Plan as of the last day of the prior fiscal year.

Can I lose or forfeit my contributions?

No. Your contributions plus the interest credited to your account belong to you and cannot be forfeited. Upon retirement, you may no longer receive a refund of contributions. Instead, you will begin receiving a retirement benefit. In the case of divorce before retirement, all or part of your contributions may be assigned to a former spouse in accordance with the terms of a domestic relations order issued by a court.

Earning Service Credits

What is service?

Service refers to the amount of time you have been a City of Fresno employee participating in the Plan. Service is used to determine when you are eligible to retire as well as the amount of your benefit at retirement.

How is service earned?

A "year of service" is earned for every ten months of City service in a permanent, full-time position in any fiscal year. If you work for less than ten months you may receive a partial year of service.

If you participate in DROP, your years of service are based on your City employment prior to entering DROP. (See *Deferred Retirement Option Program* on page 27 of this booklet.)

What happens if I take a leave of absence?

- **Unpaid Military Service**
  "Military service" means service with any of the United States armed forces while you retain your status as a City of Fresno employee. The Plan recognizes military service and credits service just as though you had remained on the job; however, leaves of absence due to annual armed forces reserve commitments do not count as military service.

  While on military service, you do not have to contribute to the Plan.

- **Other Unpaid Leave**
  If you are on any type of unpaid leave of absence, you will not earn service or be eligible to contribute to the Plan.

What happens if I am rehired by the City?

If you terminate employment and later are rehired to a permanent full-time position, you will reenter and begin earning service on your rehire date. If you left your contribution in the System when you terminated employment, you are in deferred vested status. When you are rehired, you simply continue to add service credit to your prior total. The time you were absent from City service will not count toward your retirement.

If you took a distribution of your contributions when you terminated employment, you can restore your prior service credit if you redeposit your previously withdrawn contributions. In addition, you will have to deposit additional funds to cover the interest that your contributions would have earned had you never withdrawn them from the Plan.

How can I redeposit my withdrawn contributions and thereby regain my prior service credit?

You can repay your contributions and interest in either a single lump-sum payment, or bi-weekly installment payments. The installment repayment period cannot be longer than the lesser of five years or the length of your absence. If you choose the installment method, you must also deposit an amount equal to the interest on the unpaid balance over the period you are making installments at the interest rate currently being credited to employee contributions during the repayment period.

Will my contribution rate be different when I am rehired?

Yes, if you are a Tier 1 member. Your new rate will be based on the age which equals your age when you first joined the Plan, plus the number of complete years you were gone from the City. The contribution rate for members of Tier 2 will not change because the rate is a flat 9% of your pay recognized for retirement purposes ("pensionable pay") regardless of age.

Termination of Employment

What if I terminate employment before I retire?

The City recognizes that today's work force is much more mobile than in the past. Our Plan, while rewarding long term service and commitment to the City, allows individuals who leave City employment before retiring a means of preserving their previous years of service.

What happens to my contributions?

You have several options with regard to your contributions when you terminate employment with the City.

- **Withdrawal of member contributions and interest**

  If you terminate employment, you may withdraw your contributions. Withdrawal of Contribution Forms must be completed and forwarded to the Retirement Office during your termination process. Withdrawal requests are processed at the end of the next month following your last City payday. (For example, an employee terminating City employment on October 15 could expect a refund on November 30.)

  When you withdraw your contributions, you will also receive the accumulated interest. Your after-tax contributions are not subject to taxation at the time of withdrawal because they were taxed as earnings at the time they were contributed to the Plan; however, since January 16, 1986, employee contributions have been made on a pre-tax basis. This means you have not been paying income tax on either your contributions or the interest credited to your account. Therefore both your pre-tax contributions and interest will be subject to income tax (and possibly a federal excise tax for early withdrawal) at the time of withdrawal.

  If you take a withdrawal, the Retirement Office will issue an IRS Form 1099-R to be used when you file your taxes.

You can defer income and excise taxes on your pre-tax contributions and accumulated interest by requesting the Retirement Office to roll over these amounts to an Individual Retirement Account (IRA). By choosing a rollover to an IRA, you preserve the tax-deferred status of these amounts and defer income taxes until they are distributed from the IRA. You may also roll over to other tax qualified retirement plans, provided certain IRS rules are satisfied. We recommend that you consult with qualified tax counsel if you are considering this option.

Separation/Termination after Ten Years of Service (Tier 1) or Five Years of Service (Tier 2)

If you participate in Tier 1 and separate from or terminate City service after completing ten years of service, or you participate in Tier 2 and separate from or terminate City service after completing five years of service, you have the following options:

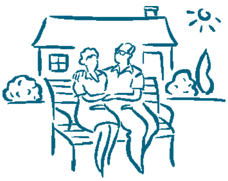
- Leave your contributions and interest on deposit in the Plan. When you reach retirement age, you will be eligible to begin receiving monthly benefits. This option preserves not only your contributions, but also the City contributions needed to fund your monthly benefits. **For this option, it is your responsibility to contact the Retirement Office when you approach retirement age to arrange for your benefits to begin. Keep in mind that, if you delay filing for your benefits, you will not be paid benefits for the period before you filed your application.** ***Instead, your benefit will be processed based on a retirement date consistent with the date that the Retirement Office receives your application.***

- Receive your contributions and interest as a single lump-sum payment. Pre-tax contributions and interest will be included in your taxable income and the Retirement Office will issue an IRS Form 1099-R to be used when you file your taxes.

- Roll over your pre-tax contributions and interest to an IRA. This option avoids current income taxes and defers taxes until you take a distribution from your IRA. After-tax contributions cannot be rolled over into an IRA.

You have 90 days after separation from the City to make an election concerning your contributions. If you do not make an election before the end of 90 days, the Municipal Code requires the Plan to refund your contributions and interest. By withdrawing your contributions and interest, you give up all rights to any other benefits from the Plan.

Retirement Decisions



When can I retire?

You can retire when you are vested and meet certain age requirements.

How do I become vested?

To be “vested” entitles you to Plan benefits funded by the City’s contributions. This entitlement is unaffected even if you terminate City service before retiring, provided that you leave your contributions and interest on deposit with the Plan. You are vested when you complete at least ten years of service if you are a Tier 1 member. If you are a Tier 2 member, you become vested after you complete five years of service.

You are always vested in your employee contributions and accumulated interest.

Service Retirement Benefits

How do I qualify for Tier 1 service retirement benefits?

You are eligible for Tier 1 service retirement benefits if:

- ♦ you terminate service, and
- ♦ leave your contributions and interest with the Plan, and
- ♦ have completed at least 10 years of service and are age 50.

How are Tier 1 service retirement benefits determined?

Tier 1 service retirement benefits are based on years of service and final average salary. The monthly benefit equals the sum of (1) and (2):

(1) 2¾% multiplied by final average salary multiplied by years of service before age 50 (cannot be more than 20 years)

(2) 2% multiplied by final average salary multiplied by years of service completed after age 50 (cannot be more than 10 years).

The maximum service retirement benefit is 75% of average salary.

¨ **Final Average Salary for Tier 1**
"Final average salary" generally means the average of the current monthly pay rate attached to the rank or ranks you held during your City service. This average is determined by adding all the pay rates associated with your ranks and dividing the total by your years of service. This average is referred to as your "career" final average salary. Please recall that this is simply a paraphrase. For the actual and controlling definitions, please refer to Fresno Municipal Code Section 2-1701(a) and (c).

You can choose an alternative method of determining your final average salary. You must make this choice before benefits are paid. Under this alternative, final average salary means your actual average monthly pay earned during your last three years of service. Please refer to Fresno Municipal Code Section 2-1701.1(a) for the actual and controlling definition. This average is referred to as your "three-year" final average salary.

How is a Tier 1 service retirement benefit calculated?

Suppose John retires at age 52 after 22 years of service and his final average salary is \$3,750. His monthly service retirement benefit equals \$2,212 (\$2,062 + \$150).

(1) 2¾% times \$3,750 times 20 years of service = \$2,062

plus

(2) 2% times \$3,750 times two years of service = \$150.

How do I qualify for Tier 2 service retirement benefits?

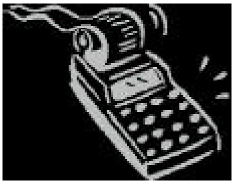
You are eligible for Tier 2 service retirement benefits if:

- you terminate service, and
- leave your contributions and interest with the Plan , and
- have completed five years of service and are least age 50.

How are Tier 2 service retirement benefits determined?

Tier 2 service retirement benefits are based on final average salary, years of service and the member's age at retirement. The monthly retirement benefit is determined by the following formula:

- Benefit percentage multiplied by final average salary multiplied by years of service.



The benefit percentage depends upon the member's age at retirement:

Retirement Age	Benefit Percentage
50	2.00% x FAS x service
51	2.14% x FAS x service
52	2.28% x FAS x service
53	2.42% x FAS x service
54	2.56% x FAS x service
55 and over	2.70% x FAS x service

The maximum service retirement benefit is 75% of final average salary.

- **Final Average Salary for Tier 2**
  "Final average salary" means your actual average monthly pay earned during your last three years of service. Please refer to Fresno Municipal Code Section 2-1701A(a) and (c) for the actual and controlling definitions.

  If you participate in DROP, your final average salary is determined at the time you enter DROP. It does not include any pay raises you receive after you enter DROP.

How are Tier 2 service retirement benefits calculated?

Suppose Pat retires when he is age 58 after completing 25 years of service. His final average salary is $4,250. His monthly retirement benefit is $2,869.

2.7% times $4,250 times 25 years of service = $2,869

How and when do I apply for service retirement benefits?

You must file a written application with the Retirement Office. In order to complete all the necessary retirement documents, you should schedule an appointment with the Retirement Office about two to three weeks before you plan to retire.

How will my retirement date affect my benefit?

Your retirement date will affect your Plan benefit in a number of ways. For both Tier 1 and Tier 2 members, your age at retirement will affect the amount of your benefit as described in the prior questions. Also, for Tier 1 members, if you plan to retire around June 30, you may wish to choose a retirement date that falls on or before June 29, so as to be eligible for a cost-of-living adjustment. (Refer to the next section, *Will my benefit be adjusted for inflation?*)

Will my benefit be adjusted for inflation?

Cost-of-living adjustments are made to help protect your retirement benefits from the effects of inflation.

Tier 1 Cost-of-Living Adjustments. If you have chosen the "career" method of determining final average salary under Tier 1, cost-of-living adjustments (COLA) are based on the weighted salary increases which occur after you terminate employment for each rank you held during your City career. Under this method, there is no maximum cap on the COLA that can be made to your benefit.

If you are a Tier 1 member and you instead chose the alternative method, i.e., the "three-year method," of determining your final average salary, the cost-of-living adjustment is based on the percentage change from the prior to the current fiscal year in the weighted mean average monthly compensation attached to all ranks of members employed in the Fire Department and, separately, to all ranks of members employed in the Police Department along with Airport Safety members employed in the Airport Department.

The annual COLA under the three-year method cannot be more than 5%. If the increase is more than 5%, the excess is "banked." This means that the excess can be used for subsequent years' cost-of-living adjustments in years when the cost of living is less than 5%. For example, suppose in one year the percentage increase in weighted average monthly compensation is 7%. All monthly paid benefits are increased by 5%, (the maximum adjustment allowed), and the remaining 2% is banked. Then suppose the increase for the following year is 3%. The extra 2% from the prior year will be used to bring the 3% adjustment up to the maximum 5% (3% + 2%).

Tier 2 Cost-of-Living Adjustments. Tier 2 cost-of-living adjustments occur on each January 1, beginning with the January 1 which begins the second calendar year following retirement. They are based on the increase in the Consumer Price Index (CPI) over the prior calendar year. The CPI used is the United States City average for urban wage earners and clerical workers (all items). The maximum adjustment is 3%. If the increase is more than 3%, the excess is banked in the same manner as explained above for the Tier 1 three-year method.

Are there any limitations on the amount of my benefit?

Yes. The Plan is subject to the limits of Internal Revenue Code (IRC) Section 415. If your retirement benefits are affected by IRC Section 415, the Retirement Office will inform you.

Does health coverage continue during my retirement?

Continued coverage under the City's health plan is available to retirees and their spouses. The retiree must bear the full cost of retaining the health care coverage. If you qualify for Medicare coverage at age 65, a supplement to Medicare is available at a reduced cost under the City health plan.

Will Social Security affect my Plan benefit?

No. The amount you receive as a benefit from the Plan does not depend on any of your other retirement income sources, including Social Security.

Since the City does not contribute to Social Security, your City employment may affect your eligibility for Social Security benefits. We encourage you to consult with the Social Security Administration about your eligibility for and the amount of your Social Security benefits.

What is the latest date I can start to receive my retirement benefits?

Benefits must begin no later than the April 1 following the year you reach age 70½ or retire, whichever is later. If you are affected by this rule, the Retirement Office will contact you.

Benefit Payment Options

Do I have a choice of payment options?

Yes. The Plan provides certain automatic forms of payment, depending upon your marital status at retirement. If you would rather take an optional form of payment, you must make this election with the Retirement Office. Following are the forms of payment which will apply if you do not select one of the options. The automatic form of payment is called the **unmodified allowance**.

- **Married Members.** If you are married at the time you retire, your spouse is a "qualified spouse." The **unmodified allowance** payable during your lifetime equals your service retirement benefit. If you have a qualified spouse who survives you, your qualified spouse receives $66^{2}/_{3}\%$ of the benefit which was payable during your lifetime. This benefit continues to your spouse until he/she dies. Please see the *What death benefits are payable after I retire?* on page 25 for information about benefits payable to your surviving minor children and any parents who are dependent upon you for their financial support.

- **Unmarried Members.** If you are not married when you retire, retirement benefits are paid over your lifetime only in an amount equal to your service retirement benefit. Following your death, no benefits are automatically payable to your beneficiary. Part of Tier 1 members' contributions pays for part of the spousal benefit. Tier 1 members who retire without a qualified spouse receive a refund of these contributions plus interest.

What are the Plan's optional forms of payment?

If you are married, you can elect an optional form of payment. The election of an optional form results in a reduction to your service retirement benefit. The option will apply only to the portion of your benefit which is not automatically continued to your surviving qualified spouse (or minor children or financially dependent parents, as the case may be).

If you are single and elect an optional form of payment, the reduction is applied to the full benefit.

All optional forms of payment are "actuarially equivalent" to your service retirement benefit. This means that a portion of the benefits otherwise payable over your lifetime are used to provide additional benefits to your beneficiary. This results in the reduction to the service retirement benefit. The reduction is based on your age and the age of your beneficiary.

- **Option 1 — Cash Refund Annuity.** This option provides you with a reduced monthly lifetime benefit so that if the total of the benefits paid to you amounts to less than your contributions and interest, the difference can be paid to your beneficiary in a single lump-sum payment. If you choose this benefit option, your qualified surviving spouse will also receive the continuance provided by the "unmodified allowance."

- **Options 2 and 3.** These options provide the surviving beneficiary benefits. Please make an appointment with the Retirement Office if you would like more information about these options. The Retirement Office will be glad to provide you with sample calculations, showing how these options will affect your benefit and the amounts payable to your beneficiary.

Disability Benefits

What happens if I become disabled before retiring?

You will receive a disability benefit from the Plan. You are "disabled" if you are physically or mentally incapacitated to perform your City job, and your disability is permanent or is expected to be of an extended duration. If your injury or illness is related to your job, it is an "industrial disability." If the injury or illness is not related to your job, it is considered to be a "non-industrial disability."

There is no minimum service requirement before benefits are payable for an industrial disability. However, in order to receive non-industrial disability benefits, you must have completed at least 10 years of service before you become disabled.

If you terminate service, you can apply for a disability benefit within four months of your last day of employment, provided you have been disabled since your last day.

The Retirement Board determines whether a member who files a disability application qualifies for disability benefits. To verify that a disability exists, the Retirement Board can require any disabled member to undergo a medical examination by one or more Board-selected physicians.

To verify that a disability continues, the Retirement Board can require a disabled member, younger than age 50, to undergo a medical examination by a Board-selected physician. If the member is no longer disabled, disability benefits will cease and the member will be reinstated in a position of the same class last held with the City.

If you are participating in DROP, you should refer to the "Deferred Retirement Option Program" section of this booklet to learn about your disability benefits.

How is the industrial disability benefit determined?

Industrial disability benefits are based on your years of service and your final average salary. The monthly benefit is either (1) or (2), whichever is greater:

(1) the service retirement benefit, or

(2) 55% multiplied by final average salary for a Tier 1 member or 50% for a Tier 2 member.

How is the industrial disability benefit calculated?

Suppose Terry, a Tier 2 member, becomes disabled at age 48. His final average salary is $3,000 and he has completed 23 years of service. Terry's benefit of $1,500 is determined as follows:

(1) Terry does not qualify for service retirement benefits because he is younger than age 50. This part of the disability benefit formula does not apply.

(2) 50% times $3,000 = $1,500.

Terry's monthly industrial disability benefit is $1,500.

As another example, suppose John, a Tier 1 member, becomes disabled at age 53. His final average salary is $3,500 and he has completed 23 years of service (three of which were completed after age 50). His monthly industrial disability benefit is $2,135.

John's monthly benefit is the greater of (1) or (2):

(1) The sum of:

2.75% times $3,500 multiplied by 20 years of service = $1,925,

plus

2.0% times $3,500 times three years of service = $210

Service Retirement Benefit equals $2,135 ($1,925 + $210)

(2) 55% times $3,500 = $1,925

John's monthly industrial disability benefit is $2,135.

How is the non-industrial disability benefit determined?

The monthly non-industrial disability benefit is also based on final average salary and years of service. It is the greater of either (1) or (2):

(1) the service retirement benefit, or

(2) either (A) or (B), whichever is greater

 (A) If years of service are more than 22.22 years, 1.65% for Tier 1 or 1.5% for Tier 2 of final average salary multiplied by years of service.

 (B) If years of service are less than 22.22 years, 1.65% for Tier 1 or 1.5% for Tier 2 of final average salary multiplied by projected years of service. (Service is projected to the member's 50th birthday.) This amount, however, cannot be more than 36.67% for Tier 1 or 33.33% for Tier 2 of the member's final average salary.

How is the non-industrial disability benefit calculated?

Suppose Sam is covered by the provisions of Tier 2 and becomes disabled at age 53 after completing 18 years of service. His final average salary is $5,000. His monthly disability benefit is $2,178, the greater of (1) or (2):

(1) Sam's service retirement benefit is $2,178.

2.42% times $5,000 times 18 years of service = $2,178

(2) Either (A) or (B), whichever is greater:

 (A) Sam's years of service are less than 22.22 years; therefore, this part of the formula does not apply.

 (B) 1.5% times $5,000 times 18 years of service* = $1,350

** Service is not projected because Sam has attained age 50.*

How do I apply for disability retirement benefits?

Applications for disability retirement benefits are available at the Retirement Office. Please call the Retirement Office to schedule an appointment.

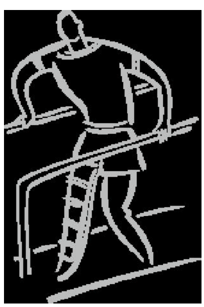
Will my disability benefits ever be reduced?

Yes, in certain circumstances. If you are younger than age 50, receiving disability benefits from the Plan, and you are gainfully employed in a non-City job, and the sum of your non-City salary and your disability benefits is more than the current pay rate of your last held City position, your benefits will be reduced by this excess amount. Any reduction in disability benefits will stop after you reach age 50.

Your worker's compensation benefits, other than benefits for medical or legal expenses, will also be offset in accordance with the Municipal Code until you reach age 50.

Do I have to do anything while receiving disability retirement benefits?

Yes. If you are receiving disability retirement benefits and are less than age 50, you must report your total earnings from all non-City jobs. Forms will be provided for this report on a quarterly basis.



Death Benefits

What happens if I die before retiring?

Your eligible surviving spouse will receive a monthly death benefit equal to the service retirement benefit you have earned (but in no case less than 50% of your final average salary). Benefits will be payable until your spouse dies.

If you die without a surviving spouse or your spouse dies before your children reach 18, the Plan provides a monthly benefit to your surviving minor children. This benefit equals 55% for Tier 1 members or 50% for Tier 2 members of your final average salary and is divided equally among your minor children. Each child receives his/her equal share of this benefit until he/she either marries or reaches age 18.

If you die and are not survived by a spouse or minor children but are survived by parents who depend upon you for financial support, the Plan will pay the death benefit to your parents. This benefit will be payable for your parents' lifetimes and is also equal to 55% for Tier 1 members or 50% for Tier 2 members of your final average salary.

What happens if I die before retiring and my death is not job related?

The Plan provides for pre-retirement death benefits in the following situations.

- **Death occurs before completing 10 years of service for Tier 1 or five years of service for Tier 2.** Your beneficiary will receive a single lump-sum payment equal to your contributions and accumulated interest and one month's salary for each year of service, up to a maximum of six months of salary.

- **Death occurs after completing 10 years of service for Tier 1 or five years of service for Tier 2.** Your eligible surviving spouse will receive a monthly benefit equal to the greater of:

  (1) If you are over age 50, two-thirds of your service retirement benefit, or

  (2) You are under age 50, two-thirds of your service retirement benefit using years of service projected to age 50

  If you die without an eligible surviving spouse or your spouse dies before your unmarried children reach 18, the Plan then provides a monthly benefit to your surviving unmarried minor children. And, if there are no surviving minor children, the Plan then provides a monthly benefit to your parents if they depend upon you for support.

  If death occurs after the member completes 10 years of service for Tier 1 or five years of service for Tier 2, your beneficiary may choose either the lump-sum benefit described above or the monthly continuance.

What death benefits are payable after I retire?

If the retired member chose the unmodified allowance, the Plan provides death benefits equal to two-thirds of your service retirement benefit to your qualified spouse, and also in certain circumstances to your minor children and dependent parents.

- **Qualified Spouse**. If you die after retiring and leave a qualified spouse, benefits will be paid to your qualified spouse according to the form of payment you elected. Your surviving spouse is a qualified spouse if you were married before your retirement date.
- **Minor Children**. If your qualified spouse dies and your children are younger than 18, the Plan provides a monthly benefit to your minor children. This benefit equals the amount payable to your qualified spouse, divided equally among your minor children. Each child will continue to receive his/her share of this benefit until marriage or reaching age 18.

- **Dependent Parents.** If you die and you are not survived by a qualified spouse or minor children but are survived by parents who depend upon you for financial support, the Plan will pay death benefits to your parents. This benefit will be payable for your parents' lifetimes.

If you choose an optional form of payment, death benefits will be based on the specific option chosen.

When and how should my beneficiary(ies) apply for death benefits?

Your beneficiary or the executor of your estate must contact the Retirement Office to complete the necessary documents, no later than one year following your death.

Deferred Retirement Option Program (“DROP”)

What is DROP?

DROP is a voluntary program and is an alternative way of receiving benefits under the Plan. If you elect to participate, you **cannot work for the City more than 10 years after the date you join DROP.** When you join DROP, you then decide whether to have your service retirement benefit paid as an unmodified allowance or as Option 1 (the cash refund annuity – see the *Benefit Payment Options* for descriptions of these two forms of payment options). These DROP decisions are irrevocable. **Once these decisions are made you cannot change your mind,** even if your personal or family circumstances change dramatically after you begin participating in DROP.

Who is eligible to participate in DROP?

Any Plan member who has not retired before **January 1, 1998,** who is at least age 50 and has completed at least 10 years of service if a Tier 1 member, or is at least age 50 and has completed at least five years of service if a Tier 2 member, can elect to participate in DROP.

How does DROP work?

If you elect to participate in the DROP, you:

- Agree to participate up to a maximum of 10 years. While your DROP participation can be shorter than 10 years from the date you join DROP, it cannot be longer than 10 years.
- Select the payment form of your service retirement benefit. You have a choice of either an unmodified allowance or Option 1, the cash refund annuity.
- Stop earning any other benefits under the Plan (although you will still receive cost-of-living adjustments in your monthly benefit, if applicable).

- Stop making contributions to the Plan.
- Begin earning DROP benefits in a DROP account held in your name. Each month the Plan will credit your DROP account with the monthly service retirement benefit that you had earned before you joined DROP. Each month, your account will be credited with interest. The Retirement Board determines the interest rate for each fiscal year (July 1 to June 30). Please note that your DROP account is a bookkeeping account only. This means that the value of your DROP account is not associated with any specific assets in the System's portfolio. At retirement, you have the right to the dollar value of your account through the various DROP distribution options available.
- Begin to receive your service retirement benefits on or before your target retirement date. When you retire, you may elect to receive your DROP account as a lump-sum payment, as monthly installment payments, rollover the account to an IRA, or a combination of these options. The installment payout period cannot be longer than 10 years or the life expectancies of you and your spouse, whichever is less. If you elect installment payments, these payments will not be eligible to receive any cost-of-living adjustments and interest will be credited monthly during the payout period. The interest rate will be set at the current actuarial rate adopted by the Retirement Board.
- You are always fully vested in your DROP account balance.

How does the Retirement Board determine the DROP interest rate?

The Retirement Board determines the DROP interest rate for a fiscal year after reviewing the performance of the Plan's entire investment portfolio for the last five years. The interest rate is based on the prior five year moving average of net market returns of the Retirement System investments.

The Retirement Board is authorized to reduce the annual interest crediting rate up to 3%, if necessary, to maintain DROP's cost neutrality.

Example of a DROP Account

For example, suppose you are a member with 30 years of service and you elect to receive your $2,200 service retirement benefit as an unmodified allowance. On September 1, 1999, you join DROP, and your DROP participation ends when you retire from the Plan on September 1, 2004. Here's what happens:

- The Plan credits your $2,200 service retirement benefit to your DROP account every month from September 1, 1999, until August 31, 2004. (This amount may increase with any COLA increases between September 1, 1999, until August 31, 2004, but this example assumes 60 monthly payments of $2,200.) During your DROP participation, this means $132,000 (60 months times $2,200) will be deposited into your DROP account.
- These amounts earn interest during your DROP participation. For this example, let's suppose that the interest rate is a constant 7%. Interest is credited each month, meaning your DROP account will earn $24,631 in interest by your retirement date.
- When you leave City employment on August 31, 2004, the Plan begins paying you the $2,200 monthly benefit (plus any COLA increases) you were entitled to as of your DROP participation date. You also receive the value of your DROP account balance as a lump-sum, as installment payments, as a rollover to an IRA or as a combination of these options.

How do I apply for DROP?

Any time after you meet the age and service requirements to retire under the Plan, you can consider beginning your participation in DROP as long as you are still working for the City. Because DROP participation may have a significant impact on your retirement benefit and your employment with the City, you should consider this option carefully. Discuss it with a financial advisor and with a Retirement Benefits counselor. Because your election of when to retire may have significant consequences, the Board wants you to take the decision very seriously.

Obtain a DROP Information Packet from the Retirement Office and read it carefully. If you want to apply for DROP, call the Retirement Office at (559) 498-1341 to schedule an appointment with a Retirement Benefits counselor to discuss your options and the potential effect on your benefit.

If you decide to proceed and elect to participate in DROP, you must sign a waiver indicating that:

- you considered this choice carefully,
- you are aware of the possible effect on your retirement benefit, and
- you agree to leave City employment not later than 10 years after you enter the DROP program.

How does DROP participation affect retirement benefits?

When you participate in DROP, the Plan treats you as if you are retired for purposes of calculating your monthly retirement benefit. Any service you earn with the City after you join DROP and any salary increases after that date are not used in calculating your monthly retirement benefit. Instead, the Plan calculates your benefit using salary and service credit as of the date you join DROP.

When you leave City employment and end your DROP participation, your retirement benefit consists of both the monthly retirement benefit described above and a distribution of the balance in your DROP account. You can elect to receive your DROP account as a lump-sum, as installment payments, as a rollover to an IRA or a combination of these options.

How does DROP affect other non-retirement benefits?

While you're participating in DROP, you remain eligible for all benefits (except retirement benefits) available to active employees that you were eligible to receive before you joined DROP.

What should I consider when deciding if I should join DROP?

You should consider DROP participation very carefully. Here are some questions you may want to ask yourself:

- Do I expect my salary to increase substantially during the DROP participation period and therefore give me a substantially increased retirement benefit if I don't join DROP?
- If I don't join DROP and continue to earn service credits, will the extra years of service and increased age make a significant difference to my retirement benefit?
- Can I be sure I will be ready to leave City employment in 10 years (or less)?
- What are the tax consequences, both now and when I actually retire and leave City employment? Keep in mind that you may suffer tax consequences if you take a lump-sum distribution before age 59½. Consult a tax advisor for complete information.
- Do I want part of my total retirement benefit paid as a lump-sum? Does my spouse agree?
- Will I be satisfied with the interest rate credited to my DROP account?

What happens if I leave before 10 Years in the DROP?

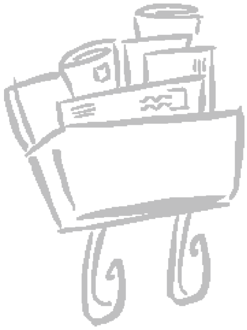
You may leave City employment voluntarily before 10 years in the DROP. If you do, the Plan begins paying you the monthly benefit earned before you joined DROP. You also are eligible to select a DROP distribution option. You will also begin to receive your service retirement benefits and your DROP account if you involuntarily leave City employment because of a layoff, reduction in force, or because you are discharged.

What happens if I die after I join DROP but before my retirement date?

If you die before receiving your DROP benefit and your beneficiary is your surviving spouse, children who are younger than age 18 or your parents who are financially dependent upon you, your beneficiary has the same payment options that were available to you – either a lump-sum payment or as installment payments. If your beneficiary is someone else, the value of your DROP account will be paid as a lump-sum. Therefore, it is important for you to keep your beneficiary designation up to date.

What happens if I become disabled while participating in DROP?

If you become disabled while participating in DROP, you can apply for disability retirement benefits. If the Board approves your application, your disability benefit will equal the monthly service retirement benefit amount being credited to your DROP account. You will also be eligible to select a DROP distribution option.



Post-Retirement Supplemental Benefit (PRSB) Program

What is the Post-Retirement Supplemental Benefit?

Effective January 1, 1999, the PRSB Program was implemented. The purpose of the Program is to provide assistance to retirees to pay for various post-retirement expenses. Annually, after an actuarial study of the Plan has been completed, the Retirement Board will review the availability of surplus earnings in the Plan and determine whether a benefit can be paid to eligible PRSB recipients. If the Board declares a surplus, PRSB benefit payments will be calculated for eligible recipients, and payments for the following calendar year will begin in January.

The payment of a PRSB benefit in any year is dependent on the presence of a Board declared surplus in the previous year. *The PRSB benefit can be increased, reduced or eliminated from one year to the next, so you should plan and be prepared for such an event.*

Who are eligible PRSB recipients?

All retirees (including DROP participants who are currently employed by the City) receiving service retirement or disability benefits are eligible recipients. DROP participants receive the PRSB benefit as an addition to their DROP account. Also, beneficiaries receiving death benefits are eligible as well. If a death benefit is payable to more than one beneficiary, the PRSB benefit will be divided among the beneficiaries in the same ratio that the death benefit is payable.

Former members who withdrew their contributions from the Plan and former spouses of members are not eligible to receive PRSB benefits.

Divorce

What happens to my Plan benefits if I divorce?

Generally, Plan benefits are available only to members, qualified spouses and beneficiaries; however, the Retirement Board will recognize a Domestic Relations Order (DRO). A DRO is a court order that awards all or a portion of a member's benefit to the member's former spouse and/or children. **An order is not a DRO if it entitles the former spouse and/or children to benefits not provided by the Plan or to benefits of a greater actuarial value than the member's benefit**.

How can my benefit be divided?

The Municipal Code offers two methods for dividing your benefit. **To avoid incurring unnecessary attorney fees and time delays, you are encouraged to submit draft orders to the Retirement Office for review before the court approves the order. The Retirement Office also has sample orders that your attorney can review in drafting an order; however, in no event can the Retirement Office provide you or the former spouse with legal or tax advice.**

The two methods set forth in the Code for dividing your benefit are the Separate Account Option or the Combined Account Option.

What is the Separate Account Option?

This option allows the former spouse some control over his/her share of your benefit. Under this option, you and the former spouse divide your contributions, interest, and years of service into two separate accounts. The former spouse can request a refund of his/her share of your accumulated contributions and interest or file for retirement, provided both you and he/she are at least retirement age.

What are the advantages to the former spouse of the Separate Account Option?

1. The former spouse does not have to rely on you to determine when benefits will be paid to the former spouse. For example, a former spouse can elect to receive a refund of his/her share of contributions and interest while you continue working for the City. Alternatively, if you have completed 10 or more years of service in Tier 1 or five or more years in Tier 2 at the time of dissolution, and both you and the former spouse are at least age 50, the former spouse can retire and receive benefits, regardless of whether or not you retire.

2. Under this option the former spouse can name a beneficiary for the benefits credited to his/her account in certain circumstances.

3. If you die before retiring, the former spouse still may receive benefits for his/her lifetime.

Are there any disadvantages to the former spouse if he/she elects the Separate Account Option?

1. If the member has not completed 10 or more years of service at the time of dissolution (five years of Tier 2 members), the former spouse is only entitled to receive a refund of his/her share of contributions and interest.

2. If the member has completed 10 or more years of service at the time of dissolution (five years of Tier 2 members), the former spouse can elect to leave his/her share of contributions and interest on deposit with the Plan. However, the former spouse will not share in any increased value of the member’s account because the former spouse’s portion of the member’s account is frozen at the date of separation of the divorcing parties.

What is the Combined Account Option?

This is a more traditional method of dividing your benefit. The former spouse is entitled to a court specified share of the community property portion of your benefit. The community property portion of your benefit is determined by how long you were married while you worked for the City.

What are the advantages to the former spouse of the Combined Account Option?

1. The former spouse participates in any future increase in your retirement benefit from pay raises and promotions.

2. The former spouse can name a beneficiary to receive benefits if you survive the former spouse.

3. The former spouse can elect to have benefits actuarially recalculated so that benefits will be payable for his/her lifetime.

Are there any disadvantages to the former spouse if he/she elects the Combined Account Option?

1. The former spouse has no control over the timing of receipt of benefits. He/she does not receive any payment from the Plan until you choose to retire.

2. Under this option, the former spouse cannot elect a lump-sum refund of contributions and interest.

3. If you die before retiring, the only benefit payable to the former spouse is his/her community property share of the death benefits.

How does the choice of the method to divide my benefit affect me?

The divorce impacts your benefit by assigning a portion of your benefit to your former spouse. Once this division is made, the choice by you and your former spouse of either the separate account option or the combined account option may not affect the benefits payable to you, but we encourage you to obtain legal counsel to assist you in making the choice.

What are some examples of how these two options work?

EXAMPLE 1

Facts

- Member X and former spouse Y are married July 1, 1985;
- X becomes a City employee on July 1, 1990;
- X and Y decide to divorce July 1, 1994, X's final average salary on July 1, 1994, is $3,100 with $14,000 in contributions and interest;
- X worked for the City for four years and, therefore, is not vested at the time of the divorce.
- Divorcing parties select Separate Account Option
- Years of marriage during City employment = 4

Division of Retirement Benefit:

Former spouse Y is entitled to 50% of the $14,000 in contributions and interest, or $7,000. The former spouse is only entitled to an immediate refund of his/her share of contributions and interest. No further benefits will be payable under these circumstances.

EXAMPLE 2

Facts

- Member X and former spouse Y are married July 1, 1985;
- X becomes a City employee on July 1, 1990;
- X and Y decide to divorce July 1, 1994, and X's final average salary on July 1, 1994, is $3,100 with $14,000 in contributions and interest;
- Divorcing parties select Combined Account Option
- Years of marriage during City employment = 4
- Member X continues to work for City until July 1, 2011, and retires with 21 years of service.
- X's final average salary at retirement = $5,100
- Community portion of retirement = 4/21 = 19%

  Each party = 9.5%
- X's retirement benefit = $2,635/month

Division of Retirement Benefit:

Each person's share of the community property portion of the benefit is normally calculated using a fraction. The numerator is the number of years the member and former spouse were married during the member's City employment. The denominator is the member's total years of City employment as of his or her retirement date. This fraction is applied to the member's Plan benefit at the member's retirement date. The community property portion is then divided into two, one-half to each of the parties.

Member's portion = $2,635 times 90.5% = $2,385

Ex-Spouse's portion = $2,635 times 9.5% = $250

EXAMPLE 3

Facts

- Member X began working for the City July 1, 1981;
- Member X and former spouse Y are married July 1, 1985;
- X and Y divorce July 1 1994, at which time X's final average salary = $4,100;
- Divorcing parties select the Separate Account Option
- Years of marriage during City employment = 9
- Total years of City employment at divorce = 13
- Community Property = 9/13 = 69%
- Each party's share = 69%/2 = 34.5%

Division of Retirement Benefit:

Under these circumstances, the former spouse can elect a lump-sum refund of his/her share of contributions and interest regardless of the member's status. But after payment of the refund, the former spouse is not entitled to any further benefits from the Plan.

If the former spouse elects to keep his/her portion of contributions and interest in the Plan, a separate account is created for the former spouse. This account is based on the member's benefits earned and final average salary at the date of separation. The former spouse can elect to commence benefits as soon as both the member and former spouse have reached age 50.

Total retirement benefit at separation before division = $1,332 per month (career to separation). Member's benefit will be reduced by adjusting his service at the time of his retirement.

Former spouse's benefit = $459.54 per month ($1,332 x 34.5%). This benefit is payable for the member's lifetime or an actuarially adjusted amount payable for the former spouse's lifetime.

The former spouse's benefit is frozen at this level no matter how long the member continues to work for the City or the amount of final average salary at the member's retirement. At this point, the two accounts are separate in every way. The only connecting issue is the age of the parties.

EXAMPLE 4

Facts

- Member X began working for the City July 1, 1981;
- Member X and former spouse Y are married July 1, 1985;
- X and Y divorce July 1, 1994, at which time
  X's final average salary = $4,100
- Divorcing parties select the Combined Account Option
- Employee retires June 30, 2011, with 30 years of service and final average salary = $5,800
- Years of marriage during City employment = 9
- Total years of City employment at retirement = 30
- Community property = 9/30 = 30%
- Each party's share = 30%/2 = 15.0%

Division of Retirement Benefit:

Total retirement benefit before division = $3,867 per month.
Member's retirement benefit at retirement = $3,287 (85% x $3,867)

Former spouse's benefit = $580 per month (15% x $3,867) payable for the member's lifetime, or actuarially adjusted to be payable for the former spouse's lifetime.